General Discussion of 'The Causal Effects of Inflation Expectations on Households' Beliefs and Actions'

The discussion focused on the interplay between central bank communication, inflation expectations, and economic behaviour. While altering expectations is challenging, the behavioural impacts are significant when successful. It was noted, however, that constant attempts to influence expectations could undermine trust. In normal circumstances, communication should emphasise central banks' long-term achievements, correcting widespread public misconceptions about inflation history. In crisis scenarios, such as at the zero lower bound, managing inflation expectations becomes a more effective tool than other monetary policies like quantitative easing.

The discussion also touched on how these findings could inform economic modelling, particularly dynamic stochastic general equilibrium (DSGE) models. Participants noted that empirical results could guide adjustments to theoretical calibrations, particularly regarding the sensitivity of inflation to expectations. However, gaps between theoretical models and real-world data remain a challenge, as do the limitations of randomised controlled trials in capturing external validity.

Lastly, there was debate about the evolving nature of central bank policies and public messaging. Some argued that central bank reaction functions should adapt over time in response to changing economic conditions. Regarding public communication, participants were divided on whether central banks should highlight their success in controlling inflation. While some believed this could improve public understanding, others cautioned against appearing self-congratulatory. A consensus emerged that trust building and transparency should remain priorities.